

EPIC GAS LTD

(Incorporated in British Virgin Islands: Registration Number: 1749293)

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

EPIC GAS LTD
(Incorporated in British Virgin Islands)
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2016 and 31 December 2015

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**EPIC GAS LTD
AND ITS SUBSIDIARIES**

STATEMENT BY DIRECTORS

For the financial years ended 31 December 2016 and 31 December 2015

In the opinion of the directors,

- (a) the consolidated financial statements of Epic Gas Ltd and its subsidiaries (the "Group") as set out on pages 3 to 48 are drawn up so as to present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2016 and 2015, and the results of their operations, changes in equity and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.


Charles Goodson Maltby
Director


Cullen Michael Schaar
Director

10 April 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Epic Gas Ltd

We have audited the accompanying consolidated financial statements of Epic Gas Ltd and its subsidiaries (the "Group") set out on pages 3 to 48, which comprise the consolidated balance sheets as of 31 December 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Epic Gas Ltd and its subsidiaries as of 31 December 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 10 APR 2017

**EPIC GAS LTD
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the financial years ended 31 December 2016 and 31 December 2015

| | Note | 2016 US\$ | 2015 US\$ |
|---|------|---------------|---------------|
| Revenue | 4 | 128,726,194 | 130,431,834 |
| Other income | | 678,754 | 362,358 |
| Other gains/(losses) - net | 7 | 948,803 | (442,869) |
| Expenses | | | |
| - Brokerage commissions | | (2,256,611) | (2,295,215) |
| - Voyage expenses | | (15,622,148) | (11,694,235) |
| - Bareboat charter hire expenses | | (14,344,419) | (15,566,014) |
| - Vessel operating expenses | 5 | (58,505,881) | (55,937,040) |
| - Depreciation | 14 | (24,588,376) | (22,039,307) |
| - General and administrative expenses | 6 | (14,650,342) | (15,281,691) |
| - Impairment loss on vessels | 14 | (9,540,778) | (10,351,840) |
| - Finance expenses | 8 | (13,738,352) | (12,995,281) |
| Total expenses | | (153,246,907) | (146,160,623) |
| Loss before income tax | | (22,893,156) | (15,809,300) |
| Income tax expense | 9 | (358,985) | (150,670) |
| Net loss | | (23,252,141) | (15,959,970) |
| Other comprehensive income/(loss), net of tax: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences | 25 | (34,689) | (63,105) |
| Cash flow hedges | | | |
| - Fair value gain/(loss) | 25 | 363,971 | (421,300) |
| - Reclassification to property, plant and equipment | 25 | 421,300 | 1,082,584 |
| Other comprehensive income | | 750,582 | 598,179 |
| Total comprehensive loss | | (22,501,559) | (15,361,791) |

The accompanying notes form an integral part of these financial statements.

**EPIC GAS LTD
AND ITS SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

At 31 December 2016 and 31 December 2015

| | Note | 2016 US\$ | 2015 US\$ |
|---|------|--------------------|--------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 10 | 10,447,444 | 43,500,550 |
| Trade and other receivables, net | 11 | 20,985,258 | 10,908,544 |
| Inventories | 12 | 3,338,779 | 2,295,238 |
| Derivative financial instruments | 21 | 213,293 | - |
| Total current assets | | 34,984,774 | 56,704,332 |
| Non-current assets | | | |
| Trade and other receivables, net | 11 | 219,246 | 477,998 |
| Restricted cash | 13 | 12,160,000 | 10,660,000 |
| Property, plant and equipment, net | 14 | 487,380,377 | 413,994,111 |
| Vessels under construction | 15 | 26,487,315 | 40,130,671 |
| Goodwill | 16 | 12,917,408 | 12,917,408 |
| Derivative financial instruments | 21 | 150,678 | - |
| Total non-current assets | | 539,315,024 | 478,180,188 |
| Total assets | | 574,299,798 | 534,884,520 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 17 | 18,881,791 | 15,696,511 |
| Deferred income | 18 | 6,612,265 | 7,549,994 |
| Capital lease liabilities | 19 | 7,152,389 | 6,773,461 |
| Current income tax liabilities | 9 | 391,641 | 109,326 |
| Borrowings | 20 | 27,782,758 | 22,679,927 |
| Derivative financial instruments | 21 | - | 427,951 |
| Total current liabilities | | 60,820,844 | 53,237,170 |
| Non-current liabilities | | | |
| Trade and other payables | 17 | - | 67,003 |
| Capital lease liabilities | 19 | 53,845,873 | 60,995,484 |
| Deferred income tax liabilities | 22 | 100,354 | 100,354 |
| Borrowings | 20 | 218,116,803 | 157,188,735 |
| Derivative financial instruments | 21 | - | 421,300 |
| Total non-current liabilities | | 272,063,030 | 218,772,876 |
| Total liabilities | | 332,883,874 | 272,010,046 |
| Commitments and contingent liabilities | 26 | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital, par value US\$0.01 per share (2015: US\$0.01 per share) | 23 | 519,480 | 519,480 |
| Shares issued and outstanding 51,948,022 (2015: 51,948,022) | | | |
| Additional paid-in capital | 23 | 307,741,342 | 307,741,342 |
| Share option reserve | 24 | 2,826,657 | 1,783,648 |
| Accumulated other comprehensive gain/(loss) | 25 | 163,683 | (586,899) |
| Accumulated loss | | (69,835,238) | (46,583,097) |
| Total shareholders' equity | | 241,415,924 | 262,874,474 |
| Total liabilities and shareholders' equity | | 574,299,798 | 534,884,520 |

The accompanying notes form an integral part of these financial statements.

**EPIC GAS LTD
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial years ended 31 December 2016 and 31 December 2015

| | Share capital US\$ (Note 23) | Additional paid-in capital US\$ (Note 23) | Share option reserve US\$ (Note 24) | Accumulated other comprehensive gain/(loss) US\$ (Note 25) | Accumulated loss US\$ | Total equity US\$ |
|------------------------------------|------------------------------------|--|--|---|-----------------------------|----------------------|
| 2016 | | | | | | |
| Beginning of financial year | 519,480 | 307,741,342 | 1,783,648 | (586,899) | (46,583,097) | 262,874,474 |
| Share based compensation | - | - | 1,043,009 | - | - | 1,043,009 |
| Net loss for the year | - | - | - | - | (23,252,141) | (23,252,141) |
| Other comprehensive income | - | - | - | 750,582 | - | 750,582 |
| End of financial year | 519,480 | 307,741,342 | 2,826,657 | 163,683 | (69,835,238) | 241,415,924 |
| 2015 | | | | | | |
| Beginning of financial year | 297,258 | 258,565,410 | 1,484,781 | (1,185,078) | (30,623,127) | 228,539,244 |
| Issuance of shares | 222,222 | 49,175,932 | - | - | - | 49,398,154 |
| Share based compensation | - | - | 298,867 | - | - | 298,867 |
| Net loss for the year | - | - | - | - | (15,959,970) | (15,959,970) |
| Other comprehensive income | - | - | - | 598,179 | - | 598,179 |
| End of financial year | 519,480 | 307,741,342 | 1,783,648 | (586,899) | (46,583,097) | 262,874,474 |

The accompanying notes form an integral part of these financial statements.

**EPIC GAS LTD
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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the financial years ended 31 December 2016 and 31 December 2015

| | Note | 2016 US\$ | 2015 US\$ |
|--|------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Net loss | | (23,252,141) | (15,959,970) |
| Adjustments for non-cash items: | | | |
| - Deferred income tax | 22 | - | 42,341 |
| - Employee share option expense | 6 | 1,043,009 | 298,867 |
| - Depreciation | 14 | 24,588,376 | 22,039,307 |
| - Impairment loss on vessels | 14 | 9,540,778 | 10,351,840 |
| - Allowance for doubtful debts | 6 | 276,632 | 238,244 |
| - Loss on disposal of property, plant and equipment | 7 | 406,241 | 51,543 |
| - Loss on disposal of vessels classified as held for sale | 7 | - | 151,231 |
| - Amortisation of deferred finance costs | 8 | 603,599 | 709,863 |
| - Unrealized translation gains | 25 | (34,689) | (63,105) |
| | | 13,171,805 | 17,860,161 |
| Changes in operating assets and liabilities, net of acquisition: | | | |
| - (Increase)/decrease in inventories | | (1,043,541) | 472,504 |
| - Increase in trade and other receivables | | (10,094,594) | (149,936) |
| - Increase in trade and other payables | | 3,118,277 | 2,917,548 |
| - Increase in current income tax liabilities | | 282,315 | 64,297 |
| - (Decrease)/increase in deferred income | | (937,729) | 2,709,082 |
| - Decrease in derivative financial instruments | | (1,213,222) | (233,333) |
| Net cash provided by operating activities | | 3,283,311 | 23,640,323 |
| Cash flows from investing activities | | | |
| Restricted cash | | (1,500,000) | (1,180,000) |
| Additions to property, plant and equipment | | (8,106,529) | (4,938,775) |
| Proceeds from disposal of vessels | | 14,871,280 | - |
| Proceeds from sale for vessels held for sale | | - | 6,599,559 |
| Payments for vessels under construction | 15 | (100,254,318) | (32,465,473) |
| Net cash used in investing activities | | (94,989,567) | (31,984,689) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 20 | 114,884,663 | 20,806,159 |
| Repayment of capital leases | | (6,774,150) | (7,465,709) |
| Repayments of long-term borrowings | 20 | (49,457,363) | (42,065,791) |
| Proceeds from issuance of shares | 23 | - | 49,398,154 |
| Net cash provided by financing activities | | 58,653,150 | 20,672,813 |
| Net (decrease)/increase in cash and cash equivalents | | (33,053,106) | 12,328,447 |
| Cash and cash equivalents at beginning of year | 10 | 43,500,550 | 31,172,103 |
| Cash and cash equivalents at end of year | 10 | 10,447,444 | 43,500,550 |
| Supplementary cash flow information | | | |
| Cash items: | | | |
| - Cash paid for income tax expenses | 9 | 76,670 | 44,032 |
| - Cash paid for interest expenses | | 13,134,753 | 12,285,418 |
| Non-cash investing and financing activities | | - | 4,500,000 |

The accompanying notes form an integral part of these financial statements.

**EPIC GAS LTD
AND ITS SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The accompanying consolidated financial statements include the accounts of Epic Gas Ltd (the "Company") and its subsidiaries (collectively, the "Group").

The Company is incorporated and domiciled in British Virgin Islands ("BVI") on 12 December 2012. The address of its registered office is PO Box 173, Kingston Chambers, Road Town, Tortola, VG1110 British Virgin Islands.

The Group owns and operates a fleet of fully pressurized gas carriers providing seaborne services for the transportation of liquefied petroleum gas and petrochemicals. The vessels serve leading oil majors and commodity trading houses throughout Southeast Asia, Europe, West Africa and the United States of America.

The principal activities of its significant subsidiaries are set out in Note 28 to the financial statements.

2. Significant accounting policies

2.1 Basis of preparation

(a) Basis of preparation and management's plans

The consolidated financial statements of the Group have been prepared on a going concern basis which assumes that the Group will be able to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, or restructuring of its operations or similar actions.

The operations of the Group require careful management of its cash and cash equivalents and its liquidity is affected by many factors including, among others, fluctuations in revenue, operating costs, as well as capital expenditures.

Management periodically reviews the liquidity position of the Group and will take actions, as necessary, to minimize the cash used in operations and retain sufficient liquidity, through its operating activities, to meet the Group's obligations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Principle of consolidation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These consolidated financial statements present the Group's financial position, results from operations and cash flows as of and for the years ended 31 December 2016 and 2015.

All significant transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation. In preparing the consolidated financial statements, transactions, balances and unrealized gains on transactions between group entities are eliminated. Unrealized losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates, judgments and assumptions that affect reported amounts. Such estimates include the assessment of useful lives and recoverability of property, plant and equipment, the assessment of the fair value of goodwill, the assessment of allowance for doubtful accounts, and share based compensation. Actual results could differ from those estimates.

(d) Segment reporting

The Group follows ASC 280 "Segment Reporting". The Group's chief operating decision-maker ("CODM"), who has been identified as the senior management team which includes its Chief Executive Officer and Chief Financial Officer, reviews the consolidated results when making decisions about allocating resources and assesses performance of the Group as a whole. Hence, the Group has only one reportable segment.

The CODM manages the Group as a single reportable segment which is primarily engaged in operation of fully pressurized gas carriers, providing seaborne services for the transportation of liquefied petroleum gas and petrochemicals. Its core services are similar in nature and these are based on the same infrastructure.

**EPIC GAS LTD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(e) Interpretations and amendments to published standards effective in 2016

On 1 January 2016, the Group adopted the new or amended accounting standards updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") that are mandatory for application from that date. The Group considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Group's consolidated financial position or results of operations.

Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective accounting standards updates. The adoption of these new or amended accounting standards updates did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial periods except for the following:

Accounting Standards Update 2014-15

"Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern.

The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter, with early adoption permitted. The Group early-adopted ASU 2014-15 as of 31 December 2015.

Accounting Standards Update 2015-03

"Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is recognized as follows:

Charter hire income and voyage expense recognition

Revenues are generated from both time and voyage charters.

Revenue from time chartering and voyage chartering of vessels are recognized on a straight-line basis over the periods of such charter agreements as service is performed.

When the Group employs its vessels on time charter, it is responsible for all the vessel operating expenses, such as crew costs, stores, insurance, repairs and maintenance. In the case of voyage charters, the vessel is contracted only for a voyage between two or more ports, and the Group pays for all voyage-related expenses in addition to the vessel operating expenses. Voyage-related expenses consist mainly of port expenses and bunker (fuel) consumption, and are recognized as incurred.

Commissions are paid by the Group for both time charters and voyage charters and are recognized on pro-rata basis. Address commissions payable to charterers are presented net of charter hire income whereas brokerage commissions are payable to brokers and are presented as operating expenses.

Demurrage income represents payments by the charterer to the vessel owner when loading or discharging time exceed the stipulated time in a voyage charter. Demurrage income is measured in accordance with the provisions of the respective charter agreements and the circumstances under which demurrage claims arise, and is recognized when the right to receive payments is established.

Ship management service revenue

Fees from the provision of the Group's ship management services are recognized when the services have been rendered.

**EPIC GAS LTD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.3 Employee compensation

(a) Defined contribution plans

The Group's contributions to defined contribution plans, including the Central Provident Fund, are recognized as employee compensation expense when the contributions are due.

(b) Share-based compensation

The Group has adopted ASC 718, "Compensation – Stock Compensation", for the accounting of share options and other share-based payments. The guidance requires that share-based compensation transactions be accounted for using a fair-value-based method. To determine the fair value of the unit awards as at the financial year end, the Group primarily used the discounted cash flow approach.

The Group operates an equity-settled, share-based compensation plan. Share-based compensation includes vested and non-vested share options granted to key management. The share options that contain a time-based service vesting condition are considered non-vested shares on the grant date and a total fair value of such share options is recognized as an expense under "General and administrative expenses" in the consolidated statement of comprehensive income with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognized over the vesting period is determined by reference to the fair value of the options granted on the date of the grant.

Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognizes the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

The Group is required to estimate forfeiture rates at the time of grant and revise such estimates, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation is recorded net of estimated forfeitures such that the expense is recognized only for those share-based awards that are expected to vest.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognized in the share option reserve are credited to share capital account when new ordinary shares are issued.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.3 Employee compensation (continued)

(b) Share-based compensation (continued)

When non-vested options are forfeited, the cumulative fair value that were recognized in the share option reserve is reversed to profit or loss upon forfeiture. There is no reversal of expenses to profit or loss for options have vested but subsequently cancelled.

2.4 Group accounting - subsidiaries

(a) Consolidation

Subsidiaries are entities (including special purpose entities) over which the Company has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases.

(b) Acquisitions

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

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For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.4 Group accounting - subsidiaries (continued)

(b) Acquisitions (continued)

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree over (b) the fair values of the identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed, is recorded as goodwill.

(c) Disposals

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognized. Amounts previously recognized in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained profits if required by a specific standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognized in profit or loss.

2.5 Income taxes

Income taxes are accounted for under the liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases, and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the periods that includes the enactment date. A valuation allowance is recorded for loss carry forwards and other deferred income tax assets where it is more likely than not that such loss carry forwards and deferred income tax assets will not be realized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.5 Income taxes (continued)

In the ordinary course of business, there is inherent uncertainty in quantifying the Group's income tax positions. The Group assesses its income tax positions and record tax benefits for all periods subject to examination based upon evaluation of the facts, circumstances and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Group records the tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. The Group recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of general and administrative expenses.

2.6 Other comprehensive income

The Group follows the guidance in US GAAP regarding reporting comprehensive income which requires separate presentation of certain transactions, such as unrealized gains and losses from effective portion of cash flow hedges, which are recorded directly as components of shareholders' equity.

2.7 Inventories

Inventories comprise mainly victualing and bonded stores, lubricating oil and bunker remaining on board. Cost is determined on a first-in, first-out basis. These inventories will be used for the operation of vessels, therefore they are not written down to the net realisable value when the market price falls below cost if the overall shipping activity is expected to be profitable.

2.8 Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price and any cost that is directly attributable to bringing it to its working condition and location for its intended use.

Subsequent expenditure relating to property, plant and equipment that has already been recognized is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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2. Significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate depreciable amounts over its estimated useful life. The estimated useful life from the date it is ready to be used is as follows:

| | <u>Estimated Useful life</u> |
|------------------------|------------------------------|
| Vessels | 30 years |
| Dry docking costs | 2 - 5 years |
| Office equipment | 4 years |
| Computers | 4 years |
| Furniture and fittings | 4 years |
| Office renovation | 5 years |

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognized in profit or loss when the changes arise.

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognized in profit or loss within "other gains/(losses) – net".

Dry docking costs relating to vessels owned by the Group are capitalized and amortized on a straight line basis over the estimated period to the next dry docking session. Dry docking costs incurred in relation to the bareboat charter vessels under operating leases are accrued on a monthly basis from the start of the lease period.

The Group determines the estimated useful lives and related depreciation charges for its vessels and dry docking costs. The estimate is based on the historical experience of the actual useful lives of vessels and dry dockings of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions. Management will change the depreciation charge where the useful lives are different from previously estimated.

If the useful lives of the vessels are decreased by one year from management's estimate, the Group's loss before income tax for the year ended 31 December 2016 will increase by approximately US\$1,038,757 (2015: US\$632,161).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. Significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

Impairment of long-lived assets

In accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), 360-10-15, "Accounting for the impairment of disposal of Long-lived Assets", long-lived assets, such as vessels and vessels under construction, to be held and used, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is tested whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment are present, impairment reviews are performed to determine whether the carrying value of an asset group is impaired, based on comparison to the undiscounted expected future cash flows. If this comparison indicates that the carrying amounts exceeds the undiscounted cash flows, the impaired asset group is written down to the fair value and the difference is recorded as an impairment loss in the consolidated statement of comprehensive income. Fair value is defined as the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date.

The carrying amounts of vessels and vessels under construction are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such an event occurs, the Group estimates the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition.

For vessels that the Group intends to dispose by sale, a loss is recognized for any reduction of the vessel's carrying amount to its fair value less cost to sell. For vessels that the Group intends to hold for use, if the total of the expected separately identifiable future undiscounted cash flows produced by the vessels is less than its carrying amount, a loss is recognized for the difference between the fair value less cost to sell against the carrying amount of the vessels. In assessing future undiscounted cash flows, the Group used cash flow projections for each vessel based on financial budgets approved by management and compared it to the vessel's carrying value. Management determined the budgeted cash flows by considering the revenue from existing charters for those vessels that have long term employment and where there is no charter in place, the budgeted cash flows are estimated based on past performance and its expectations of market development.

In assessing the fair value less cost to sell, the Group engaged independent valuation specialists to determine the fair value less cost to sell of the vessels as at 31 December 2016. The independent valuers used a valuation technique based on recent vessel sales and other comparable market data.

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2. Significant accounting policies (continued)

2.9 Vessels under construction

According to the terms of the ship building contracts for the construction of vessels entered by the Group, payments are made to the shipbuilder at specific stages. The shipbuilder assumes substantially all risks and rewards incidental to the ship building contracts. These payments are stated at cost, together with any financing and other costs.

2.10 Leases

(a) When the Group is the lessee:

Leases are classified as capital leases if they meet at least one of the following criteria: (i) the leased asset automatically transfers title at the end of the lease term; (ii) the lease contains a bargain purchase option; (iii) the lease term equals or exceeds 75% of the remaining estimated economic life of the leased asset; or (iv) the present value of the minimum lease payments equals or exceeds 90% of the excess of fair value of the leased property. If none of the above criteria is met, the lease is accounted for as an operating lease.

The Group conducts a part of its operations from leased vessels. The vessel leases, which have terms ending between June 2019 and September 2019, are classified as capital leases.

Most of the vessel leases do not have renewal clauses but provide the Group with options to purchase the vessels during the lease term.

In addition, the Group leases vessels, office premises, office equipment and staff accommodation under operating leases expiring during the next five years.

In most circumstances, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

(b) When the Group is the lessor:

The Group's leasing operations consist principally of the leasing of vessels to non-related parties and all such income are classified under revenue from charter hire services (Note 4). These leases expire over the next five years.

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2. Significant accounting policies (continued)

2.11 Intangible assets

Goodwill on acquisitions

Goodwill represents the cost in excess of fair value of the net assets of companies acquired. Goodwill is tested for impairment at year end date at the unit level using carrying amounts as of the end of the financial period or more frequently if events and circumstances indicate that goodwill might be impaired. The Group has the option of assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. In the event that a qualitative assessment indicates that the fair value of a reporting unit exceeds its carrying value, the two step impairment test is not necessary. If, however, the assessment of qualitative factors indicates otherwise, the standard two-step method for evaluating goodwill for impairment as prescribed by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, Intangibles-Goodwill and Other must be performed.

Step one involves comparing the fair value of the reporting unit based on discounted future cash flow to its carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any.

Step two involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and separately identifiable intangible assets of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

The Group determined the discounted projected cash flows for the reporting unit based on the projected cash flows generated, and compared it to the fair value of the reporting unit. The significant factors and assumptions used in the discounted projected cash flow analysis used for the above, revenue from existing charters for those vessels that have long term employment and where there is no charters in place, the budgeted cash flows are estimated based on past performance and its expectations of market development.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.12 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. Loans and receivables are presented as "Trade and other receivables, net" (Note 11), "Cash and cash equivalents" (Note 10) and "Restricted cash" (Note 13) on the balance sheet. They are initially recognized at their fair values plus transaction costs and subsequently carried at amortized cost using the effective interest method, less accumulated impairment losses.

The Group assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired and recognizes an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are example of objective evidence that these financial assets are impaired.

These assets are presented as current assets except for those that are expected to be realized later than 12 months after the balance sheet date, which are presented as non-current assets.

2.13 Deferred finance costs

Debt issuance costs, including fees, commissions and legal expenses, are presented net of the related borrowings and are deferred and amortized on an effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense.

Such costs are classified as non-current. The Group reclassifies the deferred finance costs in relation to the bank loan principal amounts to be paid due in the next twelve months as current.

2.14 Trade and other payables

Trade and other payables represent unpaid liabilities for goods and services provided to the Group prior to the end of year. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.15 Derivative financial instruments and hedging activities

The Group has entered into bunker forward contracts to manage exposures to fluctuating bunker prices and not for trading or speculative purposes. Bunker forward contracts are not designated for hedge accounting.

The Group has entered into currency forwards that qualify as cash flow hedges against highly probable forecasted transactions in foreign currencies.

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings.

The Group designates its derivatives based upon guidance on ASC 815, "Derivatives and Hedging" which establishes accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The guidance on accounting for certain derivative instruments and certain hedging activities requires all derivative instruments to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings unless specific hedge accounting criteria are met.

The carrying amount of a derivative designated as a hedge is presented as a non-current asset or liability if the remaining expected life of the hedged item is more than 12 months, and as a current asset or liability if the remaining expected life of the hedged item is less than 12 months. The fair value of a trading derivative is presented as a current asset or liability.

(a) Cash flow hedge

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy undertaken for the hedge. The documentation includes identification of the hedging instrument, hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting exposure to changes in the hedged item's cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they actually have been highly effective throughout the financial reporting periods for which they were designated. Contracts which meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.15 Derivative financial instruments and hedging activities (continued)

(a) Cash flow hedge (continued)

(i) Currency forwards

The Group has entered into currency forwards that are cash flow hedges for currency risk arising from its firm commitments for purchases denominated in foreign currencies ("hedged item"). The fair value changes on the effective portion of the currency forwards designated as cash flow hedges are recognized in other comprehensive income, accumulated in the hedging reserve and transferred to either the cost of a hedged non-monetary asset upon acquisition or profit or loss when the hedged forecast transactions are recognized.

The fair value changes on the ineffective portion of currency forwards are recognized immediately in profit or loss. When a forecasted transaction is no longer expected to occur, the gains and losses that were previously recognized in other comprehensive income are reclassified to profit or loss immediately.

(ii) Interest rate swaps

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise borrowings at floating rates and swap them into fixed rates.

The fair value changes on the effective portion of interest rate swaps designated as cash flow hedges are recognized in other comprehensive income, accumulated in the fair value reserve and reclassified to profit or loss when the hedged interest expense on the borrowings is recognized in profit or loss. The fair value changes on the ineffective portion of interest rate swaps are recognized immediately in profit or loss.

(b) Other derivatives

Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in current period earnings.

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For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.16 Provisions for other liabilities and charges

Provisions for other liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable and estimable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions with an original maturity of three months or less which are subject to an insignificant risk of change in value.

2.18 Restricted cash

Restricted cash reflects deposits with certain banks that can only be used to pay the current loan instalments or which are required to be maintained as a certain minimum cash balance per mortgaged vessel. In the event that the obligation relating to such deposits is expected to be terminated within the next twelve months, these deposits are classified as current assets; otherwise they are classified as non-current assets.

2.19 Currency translation

(a) Functional and presentation currency

Foreign currency translation

The functional currency of the Company is US Dollar. Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in US Dollar, which is the Group's presentation currency.

Transactions in other currencies are translated into the US Dollar using the exchange rates in effect at the time of the transactions. Monetary assets and liabilities that are denominated in other currencies are translated into US Dollar at the prevailing exchange rates at the balance sheet dates. Resulting gains or losses are separately reflected in the accompanying consolidated statements of income. Foreign exchange gains or losses resulting from the translation process are reported in the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.19 Currency translation (continued)

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognized in profit or loss.

When a foreign operation is disposed of or any loan forming part of the net investment of the foreign operation is repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income within "finance expenses". All other foreign exchange gains and losses impacting profit or loss are presented in the consolidated statement of comprehensive income within "other gains/(losses) - net".

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing exchange rates at the balance sheet date;
- (ii) shareholders' equity at historical rate of exchange;
- (iii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iv) all resulting currency translation differences are recognized in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2016 and 31 December 2015

2. Significant accounting policies (continued)

2.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.21 Concentration of credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of cash and cash equivalents and trade and other receivables.

The Group has limited credit risk with its banks and financial institutions, which are leading and reputable and are assessed as having low credit risk. The Group has not had any loss arising from non-performance by these parties.

The Group has policies in place to assess the credit worthiness of customers to ensure vessels are chartered to customers with an appropriate credit history. Credit terms are not normally given to customers and payments are due upon the issue of invoices

The maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial instruments presented on the balance sheet.

2.22 Fair value of financial instruments

The estimated fair value of financial instruments, such as cash and cash equivalents, trade receivables, deposits, sundry deposits and trade and other payables approximate their individual carrying amounts as at the financial year end due to their short-term maturity. Derivative financial instruments are carried in the balance sheet at fair value.

2.23 Borrowing costs

Borrowing costs that are attributable to the acquisition and with production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of that asset.

All other borrowing costs are charged to the consolidated statement of comprehensive income in the period in which they are incurred.

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2. Significant accounting policies (continued)

2.23 Borrowing costs (continued)

Borrowing costs are recognized using the effective interest method except for those costs that are directly attributable to a bank loan acquired specifically for the acquisition or construction of vessels.

The actual borrowing costs incurred during the acquisition or construction period is capitalized in the cost of the vessels.

3. Transactions with related parties

The Group provides compensation to its key management personnel and its Directors in the amount of US\$1,845,650 (2015: US\$2,621,842), and are included in the consolidated statement of comprehensive income under the caption "General and administrative expenses".

4. Revenue

| | 2016 US\$ | 2015 US\$ |
|----------------------------|--------------------|--------------------|
| Revenue from: | | |
| - Charter hire | 127,488,812 | 128,977,684 |
| - Ship management services | 1,237,382 | 1,454,150 |
| | <u>128,726,194</u> | <u>130,431,834</u> |

5. Vessel operating expenses

| | 2016 US\$ | 2015 US\$ |
|---------------------------------------|-------------------|-------------------|
| Crew expenses | 36,612,082 | 35,710,628 |
| Messing and stores expenses | 7,180,590 | 7,346,941 |
| Insurance expenses | 2,713,321 | 3,211,412 |
| Maintenance and repairs | 7,889,669 | 4,558,777 |
| Technical management fees | 193,670 | 532,000 |
| Vessel takeover and delivery expenses | 657,624 | 576,016 |
| Dry-docking costs | 52,381 | 531,494 |
| Others | 3,206,544 | 3,469,772 |
| | <u>58,505,881</u> | <u>55,937,040</u> |

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6. General and administrative expenses

| | 2016 US\$ | 2015 US\$ |
|---|----------------------|----------------------|
| Staff costs (including directors' remuneration) | 8,628,495 | 9,630,336 |
| Legal and professional fees | 1,508,133 | 1,555,877 |
| Information technology costs | 319,142 | 297,486 |
| Employee share option expenses | 1,043,009 | 298,867 |
| Rental and utilities expenses | 1,217,426 | 1,214,189 |
| Consultancy expenses | 219,815 | 689,115 |
| Travelling and entertainment expenses | 594,807 | 696,009 |
| Recruitment costs | 26,495 | 12,724 |
| Allowance for doubtful debts | 276,632 | 238,244 |
| Insurance | 72,390 | 119,997 |
| Others | 743,998 | 528,847 |
| | 14,650,342 | 15,281,691 |

7. Other gains/(losses) - net

| | 2016 US\$ | 2015 US\$ |
|--|----------------------|----------------------|
| Loss on disposal of property, plant and equipment | (406,241) | (51,543) |
| Loss on disposal of vessels classified as held for sale | - | (151,231) |
| Gain/(loss) on bunker forwards | 192,811 | (749,486) |
| Foreign currency exchange gains | 1,162,233 | 509,391 |
| | 948,803 | (442,869) |

8. Finance expenses

| | 2016 US\$ | 2015 US\$ |
|--|----------------------|----------------------|
| Interest expense on capital leases | 3,600,772 | 3,956,894 |
| Interest expense on borrowings | 9,533,981 | 8,328,524 |
| Amortisation of deferred finance costs (Note 20) | 603,599 | 709,863 |
| | 13,738,352 | 12,995,281 |

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9. Income tax expense

The Company and each of its subsidiaries are taxed at the rates applicable within each respective company's jurisdiction. The composite income tax rate will vary according to the jurisdictions in which profits arise.

(a) Income tax expense

| | 2016 | 2015 |
|---|-----------------|-------------|
| | US\$ | US\$ |
| Tax expense attributable to profit is made up of: | | |
| - Current income tax | 385,692 | 117,765 |
| - Deferred income tax | - | 42,341 |
| | 385,692 | 160,106 |
| Over provision in prior financial years | (26,707) | (9,436) |
| | 358,985 | 150,670 |

The Company is incorporated in the British Virgin Islands ("BVI") with a statutory tax rate of 0%. The Group also has significant operations in countries with statutory tax rates ranging from 0% to 20%.

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the BVI's standard rate of income tax as follows:

| | 2016 | 2015 |
|---|---------------------|--------------|
| | US\$ | US\$ |
| Loss before income tax | (22,893,156) | (15,809,300) |
| Tax calculated at statutory rate of nil% (2015: nil%) | - | - |
| Effects of: | | |
| - Different tax rates in other countries | 583,132 | 395,787 |
| - Income not subject to tax | (43,962) | (67,457) |
| - Tax incentives | (252,466) | (252,070) |
| - Expenses not deductible for tax purposes | 56,846 | 139,941 |
| - Over provision in prior financial years | (26,707) | (9,436) |
| - Others | 42,142 | (56,095) |
| Tax charge | 358,985 | 150,670 |

The results of the Group are mainly derived from the operations of vessels registered in Singapore and the Republic of Marshall Islands. Under the laws of the countries of the Company and its subsidiaries' incorporation and/or vessels' registration, the Group is not subject to tax on international shipping income.

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9. Income tax expense (continued)

(b) Movement in current income tax liabilities

| | 2016 US\$ | 2015 US\$ |
|---|----------------------|----------------------|
| Beginning of financial year | 109,326 | 45,029 |
| Income tax paid | (76,670) | (44,032) |
| Tax expense | 385,692 | 117,765 |
| Over provision in prior financial years | (26,707) | (9,436) |
| End of financial year | 391,641 | 109,326 |

10. Cash and cash equivalents

| | 2016 US\$ | 2015 US\$ |
|--------------------------|----------------------|----------------------|
| Cash at bank | 9,810,544 | 25,442,190 |
| Short-term bank deposits | - | 17,500,000 |
| Cash on board vessels | 636,900 | 558,360 |
| | 10,447,444 | 43,500,550 |

11. Trade and other receivables, net

| | 2016 US\$ | 2015 US\$ |
|-------------------------------------|----------------------|----------------------|
| <i>Current</i> | | |
| Trade receivables from: | | |
| - Non-related corporations | 10,255,388 | 7,498,166 |
| Less: Allowance for doubtful debts | (517,433) | (793,168) |
| Trade receivables, net of allowance | 9,737,955 | 6,704,998 |
| GST recoverable | 167,431 | 153,602 |
| Prepayments | 2,074,895 | 2,519,118 |
| Deposits | 293,561 | 543,725 |
| Sundry debtors | 8,711,416 | 987,101 |
| | 20,985,258 | 10,908,544 |
| <i>Non-current</i> | | |
| Deposits | 219,246 | 477,998 |

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12. Inventories

| | 2016 US\$ | 2015 US\$ |
|-----------------|-------------------------|-------------------------|
| Bonded stores | 94,109 | 94,588 |
| Bunkers | 1,830,089 | 736,998 |
| Lubricating oil | 1,309,750 | 1,339,564 |
| Victualing | 104,831 | 124,088 |
| | <u>3,338,779</u> | <u>2,295,238</u> |

13. Restricted cash

The restricted cash are fixed deposits placed and pledged with financial institutions as security for bank borrowings held by the Group. Such deposits can only be withdrawn upon the full repayment of the borrowings. The effective interest rate on these fixed deposits was 0.4800% (2015: 0.1588%) per annum.

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14. Property, plant and equipment, net

| 2016 | Vessels | Drydocking | Office | Computers | Furniture | Office | Total |
|--|--------------------|-------------------|------------------|------------------|---------------------|--------------------|--------------------|
| <u>Cost</u> | <u>US\$</u> | <u>costs</u> | <u>equipment</u> | <u>US\$</u> | <u>and fittings</u> | <u>renovations</u> | <u>US\$</u> |
| | | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> | <u>US\$</u> |
| Beginning of financial year | 436,939,847 | 13,722,796 | 104,386 | 1,089,444 | 377,541 | 1,256,531 | 453,490,545 |
| Additions | 45,023 | 8,700,297 | 52,528 | 51,916 | 10,553 | 34,950 | 8,895,267 |
| Disposals and write-offs | (15,701,558) | (2,456,499) | - | (986) | - | - | (18,159,043) |
| Transfer from vessels under construction | 113,897,674 | - | - | - | - | - | 113,897,674 |
| Impairment loss | (9,540,778) | - | - | - | - | - | (9,540,778) |
| Reclassification | - | - | - | - | 7,984 | (7,984) | - |
| End of financial year | 525,640,208 | 19,966,594 | 156,914 | 1,140,374 | 396,078 | 1,283,497 | 548,583,665 |
| <u>Accumulated depreciation</u> | | | | | | | |
| Beginning of financial year | 33,225,139 | 5,176,879 | 65,651 | 515,674 | 135,143 | 377,948 | 39,496,434 |
| Depreciation charge | 19,363,982 | 4,605,484 | 22,028 | 212,446 | 94,303 | 290,133 | 24,588,376 |
| Disposals and write-offs | (824,306) | (2,056,600) | - | (616) | - | - | (2,881,522) |
| End of financial year | 51,764,815 | 7,725,763 | 87,679 | 727,504 | 229,446 | 668,081 | 61,203,288 |
| Net book value | | | | | | | |
| End of financial year | 473,875,393 | 12,240,831 | 69,235 | 412,870 | 166,632 | 615,416 | 487,380,377 |

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14. Property, plant and equipment, net (continued)

| 2015 | Vessels | Drydocking | Office | Computers | Furniture | Office | Total |
|--|--------------------|-------------------|------------------|------------------|---------------------|--------------------|--------------------|
| Cost | US\$ | costs | equipment | US\$ | and fittings | renovations | US\$ |
| | | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| Beginning of financial year | 414,039,460 | 9,579,746 | 15,549 | 744,763 | 308,903 | 915,160 | 425,603,581 |
| Additions | 4,789,576 | 5,442,058 | 88,837 | 351,345 | 92,972 | 385,270 | 11,150,058 |
| Disposals and write-offs | - | (1,299,008) | - | (6,664) | (24,334) | (43,899) | (1,373,905) |
| Transfer from vessels under construction | 28,462,651 | - | - | - | - | - | 28,462,651 |
| Impairment loss | (10,351,840) | - | - | - | - | - | (10,351,840) |
| End of financial year | 436,939,847 | 13,722,796 | 104,386 | 1,089,444 | 377,541 | 1,256,531 | 453,490,545 |
| Accumulated depreciation | | | | | | | |
| Beginning of financial year | 15,004,440 | 3,354,260 | 1,431 | 331,724 | 31,894 | 74,950 | 18,798,699 |
| Depreciation charge | 18,220,699 | 3,140,837 | 64,220 | 188,005 | 110,166 | 315,380 | 22,039,307 |
| Disposals and write-offs | - | (1,318,218) | - | (4,055) | (6,917) | (12,382) | (1,341,572) |
| End of financial year | 33,225,139 | 5,176,879 | 65,651 | 515,674 | 135,143 | 377,948 | 39,496,434 |
| Net book value | | | | | | | |
| End of financial year | 403,714,708 | 8,545,917 | 38,735 | 573,770 | 242,398 | 878,583 | 413,994,111 |

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14. Property, plant and equipment, net (continued)

- (a) The vessels with carrying amount of US\$390,595,595 (2015: US\$316,984,545) have been pledged as collaterals for the borrowings described under Note 20.
- (b) During the year ended 31 December 2016, the Group took delivery of five (2015: two) vessels for a total consideration for US\$113,897,674 (2015: US\$28,462,651) (Note 15).
- (c) During the year ended 31 December 2016, the Group recognized an impairment charge of US\$9,540,778 (2015: US\$10,351,840) which represents the impairment of certain vessels to their recoverable amounts. The recoverable amount was based on fair value less costs to sell, with each vessel being regarded as one CGU.

The recoverable amounts of these vessels were estimated as fair value (based on independent third party valuation reports which make reference to comparable transaction prices of similar vessels) less costs to sell. These are regarded as Level 2 fair values.

- (d) The carrying amount of vessels held under capital leases was US\$80,993,825 (2015: US\$88,259,084) as at the balance sheet date.
- (e) At balance sheet date, borrowing costs incurred to finance the vessels, amounting to US\$99,589 (2015: nil), were capitalized at a rate of 3.82% per annum in the cost of the vessel.
- (f) On 10 January 2017 and 29 March 2017, the Group took delivery of the vessels "Epic Baluan" and "Epic Salina", and the payments to take delivery of both vessels was US\$11,298,340 (JPY1,317,000,000) and US\$19,022,458 (JPY2,217,368,000), respectively. The payments were satisfied by the Group's cash balances and the drawdown of a loan facility from financial institutions.
- (g) On 25 January 2017, the Group took delivery of the vessel "Epic Sardinia", which was subsequently leased out under an operating lease agreement.

15. Vessels under construction

| | 2016 US\$ | 2015 US\$ |
|-----------------------------|-------------------|-------------------|
| Beginning of financial year | 40,130,671 | 36,127,849 |
| Additions during the year | 100,254,318 | 32,465,473 |
| Vessels delivered | (113,897,674) | (28,462,651) |
| End of financial year | <u>26,487,315</u> | <u>40,130,671</u> |

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15. Vessels under construction (continued)

The progressive payments on the shipbuilding contracts are recorded in the financial statements when due. Capital commitments that the Group has made under the ship building and related contracts are disclosed in Note 26.

16. Goodwill

| | 2016 US\$ | 2015 US\$ |
|----------|----------------------|----------------------|
| Goodwill | 12,917,408 | 12,917,408 |

Goodwill arose from the merger of Epic Shipping Pte Ltd and Pantheon Carriers LPG LLC, which led to the set-up of the Company in 2012. The Company conducted its annual goodwill impairment assessment and concluded that no impairment had occurred.

17. Trade and other payables

| | 2016 US\$ | 2015 US\$ |
|----------------------------|----------------------|----------------------|
| <i>Current</i> | | |
| Trade payables to: | | |
| - Non-related corporations | 9,442,669 | 7,116,727 |
| Accrued operating expenses | 8,304,151 | 7,237,920 |
| Accrued staff costs | 1,134,971 | 1,341,864 |
| | 18,881,791 | 15,696,511 |
| <i>Non-current</i> | | |
| Other payables to: | | |
| - Non-related corporations | - | 67,003 |

18. Deferred income

The amounts shown in the consolidated balance sheet represent charter revenues received in advance as at the financial year end.

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19. Capital lease liabilities

The Group leases vessels and office equipment from third parties under capital leases. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets.

| | 2016 US\$ | 2015 US\$ |
|------------------------------|-------------------|-------------------|
| Minimum lease payments due | | |
| - 1 st Year | 10,357,739 | 10,356,850 |
| - 2 nd Year | 12,262,607 | 10,356,850 |
| - 3 rd Year | 45,658,414 | 12,261,719 |
| - 4 th Year | 888 | 45,657,527 |
| | <u>68,279,648</u> | <u>78,632,946</u> |
| Less: Future finance charges | (7,281,386) | (10,864,001) |
| Capital lease liabilities | <u>60,998,262</u> | <u>67,768,945</u> |

The present value of capital lease liabilities under Level 3 fair value inputs are analysed as follows:

| | 2016 US\$ | 2015 US\$ |
|------------------------|-------------------|-------------------|
| - 1 st Year | 7,152,389 | 6,773,461 |
| - 2 nd Year | 9,547,571 | 7,151,694 |
| - 3 rd Year | 44,297,609 | 9,546,881 |
| - 4 th Year | 693 | 44,296,909 |
| | <u>60,998,262</u> | <u>67,768,945</u> |

The Group has the option to purchase 3 of the leased vessels at the end of the first month following delivery of the vessels from the lessors to the Group, and thereafter on every charter hire payment date according to the charter party agreements until the end of the charter period. The Group has the intention to purchase the vessels at the end of the lease. The minimum lease payments due on these leases are recognized until the end of the lease.

The Group also has options to purchase 2 other leased vessels at the end of the fifth year of the charter party agreements, which have a lease term of eight years. The minimum lease payments due on these leases are recognized until the earliest period that the purchase options become exercisable.

Capital lease liabilities of the Group are secured over the leased vessels.

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20. Borrowings

| | 2016 US\$ | 2015 US\$ |
|----------------------------|---------------------------|----------------------|
| Not later than one year | 27,782,758 | 22,679,927 |
| Between one and five years | 218,116,803 | 157,188,735 |
| | <u>245,899,561</u> | <u>179,868,662</u> |

Current deferred finance costs of US\$562,164 (2015: US\$543,565) and non-current deferred finance costs of US\$361,706 (2015: US\$543,566) relating to legal and debt issuance costs directly related to the issuance of the borrowings are presented net of borrowings. The amortisation of these deferred finance costs are recognized as interest expenses in Note 8.

As part of the transaction described in Note 16, the Group acquired the outstanding borrowings associated with the vessels. The loan agreement issued on 21 December 2012 were made available in 2 tranches, Tranches A and B, of up to US\$148,281,250.

Tranche A was made available with a principal amount of up to US\$122,606,250 for the purpose of refinancing relating to 11 vessels. The key terms of Tranche A are as follows:

Interest rate : 3.8% per annum over 3M-LIBOR
Payment term : 20 fixed consecutive quarterly instalments, plus a final lump sum repayment as final settlement

Tranche B was made available with a principal amount of up to US\$25,675,000 for the purpose of refinancing relating to 5 vessels. The key terms of Tranche B are as follows:

Interest rate : 3.8% per annum over 3M-LIBOR
Payment term : 12 fixed consecutive quarterly instalments, plus a final lump sum repayment as final settlement. The principal amount has been fully repaid in September 2015.

On 18 December 2013 and 23 July 2014, the Group entered into two loan agreements for borrowings totalling US\$77,965,000 to partially finance the acquisition of 7 vessels. The key terms of the loan agreement are as follows:

Interest rate : 3.80% to 4.20% per annum over 3M-LIBOR
Payment term : 20 fixed consecutive quarterly instalments, plus a final lump sum repayment as final settlement

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20. Borrowings (continued)

On 25 March 2014, the Group entered into a loan agreement for borrowings totalling US\$32,000,000 to partially finance the acquisition of 3 vessels. The key terms of the loan agreement are as follows:

Interest rate : 3.55% per annum over 3M-LIBOR

Payment term : 20 fixed consecutive quarterly instalments, plus a final lump sum repayment as final settlement

On 30 September 2015, the Group entered into a loan agreement for facilities totalling US\$120,300,000 to partially finance the acquisition of additional 7 vessels. On 15 March 2017, the Group had drawn down additional loans from the facility, amounting to US\$17,850,000, to finance the acquisition of a vessel. The key terms of the loan agreement are as follows:

Interest rate : 3.25% per annum over 3M-LIBOR

Payment term : 28 fixed consecutive quarterly instalments, plus a final lump sum repayment as final settlement

The borrowings are secured by the following:

- (i) First and second priority cross-collateralized mortgages over the vessels;
- (ii) First and second priority assignment of the vessels' earnings, insurances and requisition compensation;
- (iii) Share charges creating security over the share capital of the borrowing entities;
- (iv) Account security deeds creating security over the accounts of the borrowing entities;
- (v) Intra-Group loan assignments creating security over intercompany loans;
- (vi) First and second priority undertakings of the commercial and technical managers of the vessels; and
- (vii) Unconditional and irrevocable on demand guarantees from Epic Gas Ltd, Epic Gas Opco II Ltd and the borrowing entities covering all amounts outstanding under the loan agreements.

On 13 October 2016, the Group entered into a refinancing arrangement for a facility totalling US\$29,750,000 for the purpose of refinancing 1 vessel belonging to the Group. The key terms of the loan agreement are as follows:

Interest rate : 3.98% per annum

Payment term : 7 years with a final purchase obligation of US\$12,400,000

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20. Borrowings (continued)

The movement of borrowings during the year was as follows:

| | 2016 US\$ | 2015 US\$ |
|---|--------------------|--------------------|
| Beginning of financial year | 179,868,662 | 200,418,431 |
| Additions | 114,884,663 | 20,806,159 |
| Repayments of long-term borrowings | (49,457,363) | (42,065,791) |
| Amortisation of deferred finance costs (Note 8) | 603,599 | 709,863 |
| End of financial year | <u>245,899,561</u> | <u>179,868,662</u> |

The respective maturity dates of the borrowings (excluding deferred finance charges) as at the financial year end are:

| <u>Issue date</u> | <u>Maturity date</u> | <u>2016 US\$</u> | <u>2015 US\$</u> |
|-------------------|----------------------|----------------------|----------------------|
| 21 December 2012 | 28 December 2017 | 69,457,500 | 89,939,829 |
| 21 April 2014 | 30 April 2019 | 8,560,000 | 9,280,000 |
| 27 June 2014 | 28 June 2019 | 7,127,733 | 7,687,733 |
| 13 January 2014 | 13 January 2019 | 6,160,000 | 7,040,000 |
| 21 January 2014 | 21 January 2019 | 2,680,000 | 4,020,000 |
| 27 January 2014 | 27 January 2019 | 9,300,000 | 9,920,000 |
| 08 August 2014 | 08 August 2019 | 7,836,111 | 8,341,667 |
| 24 July 2014 | 24 July 2019 | 11,231,250 | 12,693,750 |
| 26 November 2014 | 26 November 2019 | 10,764,063 | 12,307,813 |
| 10 February 2015 | 31 January 2020 | 8,810,000 | 9,490,000 |
| 30 March 2015 | 30 March 2020 | 9,641,667 | 10,235,001 |
| 17 February 2016 | 17 February 2023 | 12,897,601 | - |
| 25 February 2016 | 25 February 2023 | 16,881,643 | - |
| 08 August 2016 | 08 August 2023 | 13,291,440 | - |
| 17 November 2016 | 17 November 2023 | 17,709,423 | - |
| 23 December 2016 | 23 December 2023 | 13,650,000 | - |
| 21 October 2016 | 21 October 2023 | 20,825,000 | - |
| | | <u>246,823,431</u> | <u>180,955,793</u> |

The weighted-average interest rates on the above outstanding borrowings for the applicable periods were:

Year ended 31 December 2015: 4.10% per annum

Year ended 31 December 2016: 4.37% per annum

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20. Borrowings (continued)

Some of the Group's loan agreements are subjected to covenant clauses whereby the Group is required to meet certain financial ratios. The banks are contractually entitled to request for immediate payment of the outstanding borrowings in an event where financial covenants required under the terms of the loan agreements are not fulfilled and not cured. Under the terms of the loan agreements with the banks, the Group's fixed charge coverage ratio requirement is tested on a semi-annual or quarterly basis using financial statements prepared for the interim periods ending 31 March, 30 June, 30 September and 31 December for each year during the term of the loan agreement.

Prior to the 31 December 2016 test date, the Group sought a waiver of the fixed charge coverage ratio for the 31 December 2016 test date. The waiver of the covenant was granted prior to the submission of financials that would have resulted in a breach of the covenant in question.

As of 31 December 2016, the undrawn borrowing facilities amounted to US\$25,800,000 (2015: US\$120,300,000).

As at the financial year end, the fair values of non-current borrowings approximate their carrying amounts.

Subsequent to year end, on 24 March 2017, the Group entered into a refinancing arrangement for facilities totalling US\$89,925,000 to refinance 14 vessels. The key terms of the loan agreement are as follows:

Interest rate : 3.50% per annum over 3M-LIBOR

Payment term : 28 fixed consecutive quarterly instalments, plus a final lump sum repayment as final settlement

The borrowings are secured by the following:

- (i) First priority mortgage on all vessels;
- (ii) First priority general assignment of the earnings and requisition compensation claims for each vessel;
- (iii) First priority assignment of the vessels' insurances, including but not limited to Hull & Machinery, Protection & Indemnity and War Risks;
- (iv) First priority assignment of any Sub-Charter and its earnings with a duration longer than 12 months (excluding optional periods) for all Vessels;
- (v) First priority assignment of Time Charter(s);
- (vi) First priority pledge of shares of the Borrowers;
- (vii) Pledge over the Charterer Earnings Account, the Retention Account and the Deposit Account;
- (viii) Full subordination undertakings on any shareholder loans/Guarantors debt to the Borrowers;

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20. Borrowings (continued)

- (ix) Unconditional and irrevocable on demand guarantees from Epic Gas Ltd, Epic Gas Opco II Ltd with respect to Facility Agreement and all other customary documents deemed necessary.
- (x) Vessels to be cross collateralized.

The annual principal payments to be made for the borrowings (excluding deferred finance charges) as set out above, after the financial year ends are as follows:

| | 2016 US\$ | 2015 US\$ |
|------------------------|--------------------|--------------------|
| - 1 st Year | 28,344,922 | 23,223,491 |
| - 2 nd Year | 14,835,168 | 84,526,614 |
| - 3 rd Year | 56,266,534 | 8,905,138 |
| - 4 th Year | 20,893,221 | 49,668,882 |
| - 5 th Year | 6,257,607 | 14,631,668 |
| - 6 th Year | 6,254,855 | - |
| - 7 th Year | 113,971,124 | - |
| | <u>246,823,431</u> | <u>180,955,793</u> |

21. Derivative financial instruments

| | Contract notional amount US\$ | Fair value asset US\$ | Fair value liability US\$ |
|-------------------------------------|--|-----------------------------|---------------------------------|
| 2016 | | | |
| <i>Derivatives held for hedging</i> | | | |
| <i>Cash flow hedges</i> | | | |
| - Currency forwards | 15,793,606 | 213,293 | - |
| - Interest rate swaps | 30,173,082 | 150,678 | - |
| Total | | 363,971 | - |
| Less: Current portion | | (213,293) | - |
| Non-current portion | | 150,678 | - |
| 2015 | | | |
| <i>Derivatives held for hedging</i> | | | |
| <i>Cash flow hedges</i> | | | |
| - Currency forwards | 87,596,466 | - | (421,300) |
| <i>Non-hedging instruments</i> | | | |
| - Bunker forwards | 1,162,200 | - | (427,951) |
| Total | | - | (849,251) |
| Less: Current portion | | - | 427,951 |
| Non-current portion | | - | (421,300) |

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21. Derivative financial instruments (continued)

Currency forwards are transacted to hedge highly probable forecast transactions denominated in foreign currency that are expected to occur. The currency forwards have maturity dates that coincide within the expected occurrence of those transactions. Gains and losses recognized in other comprehensive income prior to the occurrence of these transactions are reclassified to profit or loss in the period or periods during which the hedged forecast transaction affects profit or loss. Gains and losses from forwards used to hedge highly probable forecast foreign currency purchases of property, plant and equipment are included in the cost of the assets and recognized in profit or loss over their estimated useful lives as part of depreciation expense.

Interest rate swaps are transacted to hedge variable quarterly interest payments on borrowings. Fair value gains and losses on the interest rate swaps recognized in the other comprehensive income are reclassified to profit or loss as part of interest expense over the period of the borrowings.

22. Deferred income tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movement in deferred income tax liabilities is as follows:

| | Accelerated tax <u>depreciation</u> US\$ | <u>Provisions</u> US\$ | <u>Total</u> US\$ |
|---------------------------------|---|---------------------------|----------------------|
| 2016 | | | |
| Beginning/end of financial year | 101,134 | (780) | 100,354 |
| 2015 | | | |
| Beginning of financial year | 60,470 | (2,457) | 58,013 |
| Charged to profit or loss | 40,664 | 1,677 | 42,341 |
| End of financial year | 101,134 | (780) | 100,354 |

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23. Share capital

| | Issued no. of ordinary <u>shares</u> | <u>Amount</u> Share capital US\$ | Additional paid-in capital US\$ |
|------------------------------------|--|---|---------------------------------------|
| <u>Group and Company</u> | | | |
| 2016 | | | |
| Beginning/end of financial year | 51,948,022 | 519,480 | 307,741,342 |
| 2015 | | | |
| Beginning of financial year | 29,725,800 | 297,258 | 258,565,410 |
| Issuance of shares on 14 July 2015 | 22,222,222 | 222,222 | 49,175,932 |
| End of financial year | 51,948,022 | 519,480 | 307,741,342 |

All issued and outstanding ordinary shares are fully paid as at the financial year end.

The total authorized ordinary shares of the Company is 200,000,000 shares. On date of incorporation, the Company issued 1 share at par value of US\$1. The holders of the shares are entitled to one vote on all matters submitted to a vote of shareholders and to receive all dividends, if any.

On 14 July 2015, a private placement of 22,222,222 newly issued shares of the Company's ordinary shares was completed at a subscription price of US\$2.25 per share. The gross proceeds from the private placement amounted to US\$50,000,000 while the net proceeds after the underwriters' discounts and commissions and other related expenses amounted to US\$49,398,154. This is to provide funds for the expansion of the Group's operations.

Subsequent to year end, on 30 March 2017, the Group issued and allocated 18,438,035 ordinary shares at a subscription price of NOK15 (equivalent to US\$1.755 at prevailing exchange rate) through a private placement. The gross proceeds from the private placement amounted to NOK276,570,525 (equivalent to US\$32,358,784) which will be used for working capital and general corporate purpose.

The newly issued shares rank pari passu in all respects with the previously issued shares.

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24. Share option reserve

| | 2016 US\$ | 2015 US\$ |
|--------------------------------|------------------|------------------|
| Beginning of financial year | 1,783,648 | 1,484,781 |
| Epic Gas Ltd Share Option Plan | | |
| - Value of employee services | 1,043,009 | 587,358 |
| - Share options forfeited | - | (288,491) |
| End of financial year | <u>2,826,657</u> | <u>1,783,648</u> |

Employee Share Options

Pursuant to the Epic Gas Ltd Share Option Plan, the Company granted share options to key management personnel and employees who are in service at the date of grant.

The vesting schedule for the share options is as follows:

- 40% on the Second anniversary of the Grant Date;
- 20% on the Third anniversary of the Grant Date;
- 20% on the Fourth anniversary of the Grant Date; and
- 20% on the Fifth anniversary of the Grant Date;

Once vested, the options are exercisable during the contractual option term of ten years from grant date.

Prior to delivery of the shares (as evidenced by the entry in the shareholders' register), no right to vote or receive dividends or any rights as a shareholder shall exist with respect to the options, notwithstanding the exercise of the option.

Movements in the number of unissued common shares under option and their exercise prices are as follows:

| | At the beginning of the year | Granted during the year | Number of ordinary shares under award Forfeited/ expired during the year | Cancelled during the year | At the end of the year | Weighted- average exercise price US\$ |
|----------------------|------------------------------------|-------------------------------|---|---------------------------------|------------------------------|---|
| 2016 | | | | | | |
| March 2013 Awards | 298,500 | - | - | - | 298,500 | 10 |
| December 2013 Awards | 880,800 | - | - | - | 880,800 | 8 |
| January 2016 Awards | - | 2,779,592 | - | - | 2,779,592 | 2.25 |
| Total | <u>1,179,300</u> | <u>2,779,592</u> | <u>-</u> | <u>-</u> | <u>3,958,892</u> | |
| 2015 | | | | | | |
| March 2013 Awards | 359,300 | - | (36,480) | (24,320) | 298,500 | 10 |
| December 2013 Awards | 1,560,200 | - | (407,640) | (271,760) | 880,800 | 8 |
| Total | <u>1,919,500</u> | <u>-</u> | <u>(444,120)</u> | <u>(296,080)</u> | <u>1,179,300</u> | |

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24. Share option reserve (continued)

The number of options exercisable as at 31 December 2016 is 780,500 (2015: 581,100).

| | 2016 | 2015 |
|--------------------------------------|------------------|----------------|
| Number of share options to be vested | | |
| - 1 st Year | 199,400 | 199,400 |
| - 2 nd Year | 1,311,238 | 199,400 |
| - 3 rd Year | 555,918 | 199,400 |
| - 4 th Year | 555,918 | - |
| - 5 th Year | 555,918 | - |
| | 3,178,392 | 598,200 |

The Company estimated the fair value of the share options using the Binomial Option pricing model, which incorporated subjective assumptions including expected volatility, expected term and interest rates.

The expected volatility was based on the historical volatility and trading history of the shares of comparable companies in similar industry over the most recent years that commensurate with the estimated expected term of the share options. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

Expected terms for the above options were determined by the simplified method.

The assumptions used for the estimation of fair value of the share options at grant date are as follows:

| | |
|--------------------------------|--------------|
| Weighted average expected term | 6.48 years |
| Dividend yield | 0% |
| Risk-free interest rate | 0.15 - 2.01% |
| Weighted average volatility | 34.59% |

The fair value of the options granted was estimated to be US\$4,534,045 (2015: \$2,364,938) under Level 3 fair value inputs. The amount of unvested awards to be recognized on straight-line basis over the vesting period is US\$1,707,394 (2015: US\$1,580,751).

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25. Accumulated other comprehensive gain/(loss)

(a) Composition:

| | 2016 US\$ | 2015 US\$ |
|------------------------------|----------------|------------------|
| Currency translation reserve | (200,288) | (165,599) |
| Hedging reserve | 363,971 | (421,300) |
| | <u>163,683</u> | <u>(586,899)</u> |

(b) Movements:

(i) Currency translation reserve

| | 2016 US\$ | 2015 US\$ |
|---|------------------|------------------|
| Beginning of financial year | (165,599) | (102,494) |
| Net currency translation differences of financial statements of foreign subsidiaries | (34,689) | (63,105) |
| End of financial year | <u>(200,288)</u> | <u>(165,599)</u> |

(ii) Hedging reserve

| | 2016 US\$ | 2015 US\$ |
|--|----------------|------------------|
| Beginning of financial year | (421,300) | (1,082,584) |
| Reclassification to property, plant and equipment | 421,300 | 1,082,584 |
| Fair value gains/(losses) | 363,971 | (421,300) |
| End of financial year | <u>363,971</u> | <u>(421,300)</u> |

26. Commitments

(a) Capital commitments

The Group has contracted but not provided for US\$31,019,203 (equivalent of JPY3,615,778,200) (2015: US\$115,278,888 (equivalent of JPY13,890,691,000)) under the ship building contracts, payable during the stages of construction of the vessels.

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26. Commitments (continued)

(b) Operating lease commitments - where the Group is a lessee

The Group leases vessels, office premises, office equipment, and staff accommodation from non-related corporations under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

Charter hire and rental expenses under operating leases accounted for on a straight-line basis for the financial year are as follows:

| | 2016 US\$ | 2015 US\$ |
|--|--------------|--------------|
| Leasing of vessels | 14,344,419 | 15,566,014 |
| Leasing of office premises and equipment | 1,217,426 | 1,218,242 |
| Leasing of employees' accommodation | 183,283 | 189,901 |

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognized as liabilities, are as follows:

| | 2016 US\$ | 2015 US\$ |
|----------------------|-------------------|-------------------|
| 1 st Year | 13,600,147 | 14,487,791 |
| 2 nd Year | 11,703,983 | 13,557,791 |
| 3 rd Year | 10,529,524 | 11,751,905 |
| 4 th Year | 7,596,857 | 10,559,305 |
| 5 th Year | 7,098,000 | 7,594,944 |
| More than 5 years | 3,031,175 | 10,247,864 |
| | <u>53,559,686</u> | <u>68,199,600</u> |

(c) Operating lease commitments - where the Group is a lessor

The Group leases out its vessels to non-related corporations under non-cancellable operating leases.

The future minimum lease receivables under non-cancellable operating leases contracted for at the balance sheet date but not recognized as receivables, are as follows:

| | 2016 US\$ | 2015 US\$ |
|----------------------|-------------------|-------------------|
| 1 st Year | 50,285,677 | 42,416,872 |
| 2 nd Year | 4,361,150 | 4,763,735 |
| | <u>54,646,827</u> | <u>47,180,607</u> |

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27. Fair value measurements

The Group applies ASC 820, "Fair Value Measurements", with respect to fair value measurements of (a) all financial assets and liabilities and (b) non-financial assets and liabilities that are recognized or disclosed in the financial statements at fair value on a recurring basis (at least annually). Under ASC 820, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

ASC 820 specifies a hierarchy of inputs to valuation techniques based on the extent to which inputs used in measuring fair value are observable in the market. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability. ASC 820 requires the use of observable market data if such data is available without undue cost and effort. Each fair value measurement is reported in one of three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

(a) Valuation technique

Level 1 - Inputs are unadjusted quoted prices for identical assets and liabilities in active markets. Level 1 assets and liabilities include equity securities and derivative contracts that are traded in an active market.

Level 2 - Inputs are based on observable inputs other than level 1 prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category includes the majority of government debt securities, corporate debt securities and derivative contracts.

Level 3 - One or more significant inputs are unobservable. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow techniques, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation of assumptions that market participants would use in pricing the asset or liability. This category primarily includes certain private equity investments and certain hybrid financial instruments not classified within Level 1 or 2.

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27. Fair value measurements (continued)

(a) Valuation technique (continued)

The following table presents the fair values for assets and liabilities measured on a recurring basis categorized based upon the lowest level of significant input to the valuations as of 31 December 2016:

| | | Fair Value Measurements Using | | |
|----------------------------------|--------------------|---|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | Fair value US\$ | US\$ | US\$ | US\$ |
| <i>As of 31 December 2016</i> | | | | |
| Assets | | | | |
| Derivative financial instruments | 363,971 | - | 363,971 | - |
| Total | 363,971 | - | 363,971 | - |
| <i>As of 31 December 2015</i> | | | | |
| Liabilities | | | | |
| Derivative financial instruments | (849,251) | - | (849,251) | - |
| Total | (849,251) | - | (849,251) | - |

Currency forwards and bunker forwards are valued using dealer quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

(b) Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and trade and other payables approximated their fair values due to their short-term nature. For non-current bank borrowings and notes payables, the fair value is estimated based on current interest rates available to the Group for issuance of debts of similar terms and remaining maturities.

Apart from the derivative financial instruments, the Group does not have financial instruments carried at fair value as of 31 December 2016 and 31 December 2015.

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28. Listing of significant subsidiaries in the Group

| <u>Name of significant subsidiaries</u> | <u>Principal activities</u> | <u>Country of incorporation</u> |
|---|--|---------------------------------|
| Epic Gas OPCI I Ltd ^(a) | Investment Holding | British Virgin Islands |
| Epic Gas OPCI II Ltd ^(a) | Investment Holding | British Virgin Islands |
| Epic Gas Shipholding Pte. Ltd. ^(a) | Investment Holding | Singapore |
| Epic Gas (UK) Limited ^(c) | Provision of Commercial and Technical Management Services | United Kingdom |
| Epic Ship Management Pte. Ltd. ^(a) | Provision of Technical Management Services | Singapore |
| Epic Ship Management GmbH ^(b) | Provision of Technical Management Services | Germany |
| Aegean Enterprises Inc. ^(b) | Vessel owning and chartering | Marshall Islands |
| Botany Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Elba Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Bali Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Baluan Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Barbados Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Bonaire Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Borinquen Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Borneo Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Caledonia Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Camelot Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Curacao Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Madeira Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Manhattan Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Salina Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Samos Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Sardinia Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Sentosa Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Shikoku Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Sicily Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic St. Agnes Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic St. Croix Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic St. George Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic St. Ivan Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic St. Thomas Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Super League Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic Vessels (Singapore) Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epic York Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| Epirus Enterprises Inc. ^(b) | Vessel owning and chartering | Marshall Islands |
| Lagonisi Enterprises Inc. ^(b) | Vessel owning and chartering | Marshall Islands |
| Macedonian Enterprises Inc. ^(b) | Vessel owning and chartering | Marshall Islands |
| Minorca Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Marshall Islands |
| Oinoussian Enterprises Inc. ^(b) | Vessel owning and chartering | Marshall Islands |
| Olympian Enterprises Inc. ^(b) | Vessel owning and chartering | Marshall Islands |
| St Kitts Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| St Lucia Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| St Martin Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |
| St Vincent Shipping Pte. Ltd. ^(a) | Vessel owning and chartering | Singapore |

^(a) Audited by PricewaterhouseCoopers LLP, Singapore

^(b) Not required to be audited under the laws of the country of incorporation

^(c) Audited by local accounting firm